EPRA RESPONSE TO THE EIOPA CONSULTATION ON THE 2020 REVIEW OF SOLVENCY II

14 January 2020

ABOUT EPRA

For 20 years, the European Public Real Estate Association (EPRA) has been the voice of Europe's listed real estate companies that derive income from the ownership, trading and development of income producing real estate assets. Listed real estate allows anyone, from retail investors to large institutional investors, to invest in the underlying assets of publicly quoted companies, the same way as investing in other industries through purchasing shares. With more than 275 members[1] (companies, investors and their suppliers), EPRA represents over 450 billion EUR of real estate assets (European companies only) and 94% of the market capitalisation of the FTSE EPRA Nareit Europe Index.

KEY MESSAGE

EPRA considers it an important step towards ensuring the possibility of insurers to further contribute to long-term funding in capital. Therefore, and as it was reiterated before, the listed real estate sector considers the new category of long term equity investments (LTE) positively and wants to share our sector's view in order to facilitate insurers to apply the LTE option properly when looking to invest in equity for a long term. In particular, we hereby like to provide you with a comment under the general section of this consultation and more specifically to also answer the question 2.11 concerning diversification of long term equity risk.

Long term equity investment is the key element to provide stable capital in order to finance tangible assets, including real estate and its retrofit, as well as intangible assets, such as research, which is crucially needed to boost growth, innovation and competitiveness in Europe. Numerous real estate investments have wider public benefits, as they generate returns for society as a whole by supporting essential services and improving living standards, as also described in the EPRA report 'Building a Stronger Europe: Stock Exchange Listed Property Companies'.[2] Therefore, our sector welcomed the introduction of the new category in the Solvency II Delegated Regulation which would encourage insurers to invest specifically in long-term equity while meeting the conditions required for such investments to remain sound and prudent.

Having said that, we want to stress that this can only be seen as an important first step towards translating such objective into reality. A second and equally important step is to enable and encourage

[1] The full list of EPRA members is available at https://www.epra.com/about-us/who-we-are/our-members.
[2] Read more in the EPRA report 'Building a Stronger Europe: Stock Exchange Listed Property Companies'

insurers to apply it for such purpose. For this reason, we like to call EIOPA to keep the set conditions as flexible as possible so that insurers can apply the new module successfully and will not be forced to face additional requirements to an already strict set of conditions required for the LTE category. This would be particularly important concerning EIOPA's advise on diversification as described in the 'Consultation Paper on the Opinion on the 2020 review of Solvency II' at pages 254—255 and 260.

Next to that, we agree that a 22 percent capital charge for a single equity would not be appropriate and that within the EU/EEA exist sufficient possibilities for diversification. Excessive reliance on one particular issuer or group of undertakings should be avoided and therefore LTE investments should be properly diversified. At the same time, we stress that such requirement needs to be kept flexible so that it would meet the objective for which it was designed which is to ensure that insurers are not over-relying on a single equity in their LTE portfolio.

Similarly, we would like EIOPA to keep the requirement of article 171a 1(c) of a clear identification, separation of the management and organisation of the portfolio as flexible as possible and advice accordingly to the national competent authorities (NCAs) so that equal application of the requirement will be uphold in all EU Member States. We particularly point your attention to Germany where such requirement, if not interpreted in an intended way, would disable insurers to apply the LTE option entirely. Feedback within our industry has been made clear that this condition will be decisive to have the new article applied successfully.

We welcome a constructive dialogue with you on this subject and remain available to discuss further. We stand ready to answer any specific question about the listed real estate sector in Europe. Please contact Tobias Steinmann, EPRA Public Affairs Director, at t.steinmann@epra.com or the team at publicaffairs@epra.com.

Q2.11 Considering the diversification of long-term equity risk with other risks: Do you have evidence to support any of the options set out in this section? If the answer is "Yes", please elaborate on it.

The listed real estate sector agrees with EIOPA and considers diversification crucial for ensuring sound and prudent investments in long-term equity. We believe that any additional requirement on diversification should allow a sufficient amount of flexibility to enable insurers to design the asset allocation which would fit their investment strategy the best while being sufficiently diversified. It goes alongside our submitted statement in the general section of this consultation that the new category of long-term equity should not be made more stringent by removing the existing flexibility on the insurer's part. To the contrary, we believe that EIOPA, as it already indicated, should continue on allowing for a flexible application of the already strict set of conditions which are to be met when applying the long-term equity model.